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## APPENDIX I.

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### ADDRESS TO THE ECONOMIC SCIENCE AND STATISTICS SECTION OF THE BRITISH ASSOCIATION.

By PROFESSOR J. SHIELD NICHOLSON, President of the Section. Nottingham, 1893.

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#### THE REACTION IN FAVOR OF THE CLASSICAL POLITICAL ECONOMY.

It may naturally be expected in the address which, as president of this section, I have the honor to deliver, that some attempt should be made at originality, or at any rate at novelty. Accordingly, I hope that I shall fall in with the traditions of my office by defending a series of paradoxes and by running counter to a variety of popular opinions. I will only premise that however paradoxical I may appear, and however much I may seem to strain at singularity, I shall speak always to the best of my ability with the utmost good faith, and I shall endeavor to give only the results of my most deliberate convictions.

The central paradox which I propose to defend—the root of the whole series—is that the so-called orthodox, or classical, political economy, so far from being dead, is in full vigor, and that there is every sign of a marked reaction in favor of its principles and methods. The singularity of my position may be indicated by a word and a phrase. The word is Saturn, the phrase, “we are all socialists now.” I shall try to show that the traditional English political economy has neither been banished to Saturn nor stifled by socialism, and that in fact it is stronger than ever. This renewed vigor is no doubt largely due to the attacks made upon it on all sides in increasing force for the last twenty years. The dogmatic slumber induced by popular approval has been rudely shattered, and although some of the more timid followers of the orthodox camp thought they had been killed when they were only frightened and awakened, the central positions are more secure than before.

Consider, in the first place, the question of scientific method and the closely allied question of the relation of political economy to allied sciences. The method practically adopted by Adam Smith and

Ricardo, and reduced to scientific form by Mill and Cairnes, and quite recently and still more effectively by Dr. Keynes, must still be regarded as fundamental. It has survived and been strengthened by two distinct attacks. In the first place, the extreme advocates of the historical method attempted to reduce political economy to a branch of history and statistics. They were concerned to pile up facts and add up figures, and they seemed to think that no guiding principles were necessary. But compilations of this kind are, properly speaking, not even history, still less are they political economy. History does not consist simply in collecting facts; the facts must be grouped, arranged and connected in an orderly manner. A room full of old newspapers is not history, though it may contain much material for history. There was really nothing new in this extreme form of the historical method. It was a reversion to a primitive type. The plan had been adopted by chroniclers time out of mind; they embedded facts, signs, wonders and traditions, as the mud of a river embeds what happens to fall in it. The facts are the fossils of the historian, and he has to make a very few go a long way. In economic literature we have an example of this method in the *Annals of Commerce* of Anderson and Macpherson. The simple device is to collect all the facts and opinions about Commerce all the world over, and arrange them under the year in which they happened. The basis of classification is time pure and simple, and at the best we have an imperfect collection of materials which must be sifted and weighed to be of any service.

Now compare this method of simple accumulation—this attempt to write a biography of Father Time as a man of business—with the historical method adopted by Adam Smith; at least two-thirds of the *Wealth of Nations* is history, and it is history of the first rank, and it is so because it is history that is introduced for the illustration, confirmation, or qualification, as the case may be, of principles. It does not follow because the principles are fundamental that the facts are warped and distorted; it simply means that the facts are made intelligible. Take, for example, his account of the economic aspects of the feudal system. He brushes away the technicalities and looks into the inner life as easily as William the Conqueror at the Council of Salisbury. Or, to take a modern instance, he is like a naturalist who puts aside the parts of the creature he does not want in order that he may see what he does want more clearly. This is a very different matter from suppressing truth and warping facts to suit preconceived opinions. It

is needless to say that Adam Smith made some mistakes, *e. g.*, in the treatment of the Mercantilists; it ought to be equally needless to say that he made some remarkable discoveries of the processes of economic development. Adam Smith also made large use of the comparative method; he literally ranged from China to Peru in his survey of mankind. What is the underlying assumption in this procedure? It is simply that in economic affairs, in matters of buying and selling in the widest sense of the terms, in satisfying wants by labor, in the accumulation of wealth, there are certain characteristics of human nature that may be regarded as fundamental. These are no doubt subject to modification by other influences, but modification is not total suppression or eradication. How long would it take the Ethiopian to change his skin under a different climate? And is it not proverbial that human nature is more than skin-deep? I think the Ethiopian might become very pale in complexion long before he would learn to prefer low wages to high wages, and much labor to little labor. Economists may learn something from the poets. Why do the creations of the greatest poets live and move? Why do we assent at once to their reality? Simply because they are like ourselves, and we feel with Goethe that we ourselves could commit the same crimes in debasement, and achieve the same glory in exaltation, of spirit. The gods and goddesses, the sylphs and fairies, are only shadows. Can any man read Shakespeare or Homer—to say nothing of undoubted historical records—and deny that a large part of human nature, especially that part with which economists have to deal, is subject to but little variation? Knowledge grows and is handed on from age to age, and the power of man over nature steadily increases, but the feelings are renewed with every generation. The children of the nineteenth century may be precocious and priggish, but they are not nineteen centuries old. Let me remind you, though I am anticipating my argument, that the latest and most advanced scientific economics—that which the Austrian economists have evolved out of the conception of utility—in reality lays more stress than Adam Smith did on the universality of the feelings of mankind. The only difference is that he knew that he was speaking plain prose, and they sometimes think they are only speaking subjective philosophy. In consequence, Adam Smith's men and women are more real and less uniform than the offspring of the new analysis. But the point of importance is the recognition of certain characteristics of human nature as fundamental; there is no other justification for the

use of the comparative and historical methods in the broad manner of Adam Smith.

There are, however, still evidences in recent writers of the influence of that narrow view of history which tries to avoid principles, in order to make an impressionist record of facts. Impressionism may be good art, but it is bad science. Too much stress, for example, is laid on the mere enumeration of statutes and preambles, and too little attention is given to the far more difficult question, How far was the law operative, and how far was the preamble a just description? But signs are not wanting that the broader method of Adam Smith is gaining ground. The work of Mr. Seebohm on the *English Village Community* is a splendid example, worthy to be placed on a level with the best chapters of the *Wealth of Nations*; and Dr. Cunningham throughout his excellent history has informed facts with principles.

But it is time to observe that the traditional method of English political economy was more recently attacked, or rather warped, in another direction. The hypothetical or deductive side was pushed to an extreme by the adoption of mathematical devices. I have nothing to say against the use of mathematics, provided always that the essential character of mathematics is borne in mind. Mathematics is a formal science that must get its materials from other sciences. It is essentially as formal as formal logic. The mathematician is an architect who must be provided with stones and wood and labor by the contractor. It is one thing to draw a plan, another to erect a building. In economics there are certain relations which are most easily expressed in mathematical form. One of my greatest obligations to Professor Marshall is that when I began the study of political economy at Cambridge some twenty years ago, he advised me to read Cournot. And before going further I should like to say that I think one of the greatest signs of power in Professor Marshall's *Principles* is that he has transferred his mathematical researches and illustrations to appendices and foot notes, and in his preface also he has admirably stated the limits and functions of mathematics in economic reasoning. I also gladly avail myself of this opportunity of expressing my concurrence with the views of Professor Edgeworth in his excellent address on this topic as president of this Section in 1889. But less able mathematicians have had less restraint and less insight; they have mistaken form for substance, and the expansion of a series of hypotheses for the linking together of a series of facts. This appears to me to be especially true

of the mathematical theory of utility. I venture to think that a large part of it will have to be abandoned. It savors too much of the domestic hearth and the desert island. I announced my intention at the beginning of running counter to some popular opinions. I ask for your patience and forbearance when I say that in my opinion the value of the work of Jevons as regards the main body of economic doctrine has been much exaggerated. I am ready to admit that much of his work in finance and currency and in many special problems is excellent. But he was, I think, too deficient in philosophical grasp and intellectual sympathy to give the proper place to a new conception; witness his treatment of Mill and Ricardo. Again, Jevons was not a mathematician of the first rank; he struggles with the differential calculus as a good man struggles with adversity. The older economists maintained that price was the measure, not of utility, but of value, and value could not be reduced simply to utility. Things, they said, might have a high value in use and but little value in exchange. Jevons, by making the distinction between final and total utility, thought that he had discovered a method by which utility might be measured by price. No doubt, if we make adequate hypotheses, qualifications, and explanations this may be done; and, in the same way, if we introduce enough cycles and epicycles we may explain or describe the motions of the stars. But price is essentially the expression of objective and not of subjective relations—that is the older view in modern phraseology; the attempt to make a kind of pre-established harmony between the two leads to unreality. Price depends upon demand and supply, and the degree of utility is one element affecting demand. In my view the distinction between final and total utility is of qualitative importance; it is of service in explaining the real advantage of exchange; although the essential character of this advantage has been explained by Adam Smith and his successors. The precision of the new phraseology, especially when translated into curves, gives definiteness and sharpness to the conceptions. The subject is too intricate for more detailed consideration in this place. I will only add that in my view Professor Marshall's criticism of Jevons may be carried much further, with a still further rehabilitation of Ricardo.

There is another direction in which I think the mathematical economists have wandered far from reality. I allude to the stress laid upon what are called marginal increments. There is a tendency to magnify the effects of the last portion of supply or the last expression of demand.

I will only say that this doctrine is very apt to run into the fallacy which may be popularly described as the tail of the dog fallacy—the idea being that the tail wags the dog and the tip of the tail wags the tail.

To resume in a sentence: the method of the so-called orthodox English economists has only been modified and supplemented, not revolutionized and supplanted, by the historical and mathematical methods of recent writers, and this, in my opinion, is being recognized more and more.

I pass on to consider a closely allied question—the question, namely, of the limitation of the boundaries of the subject-matter of political economy. In my view one of the greatest merits of the orthodox economists was the careful distinction they drew between economic and other social sciences. They refused to merge it in the misty regions of general sociology, and they excluded from its borders the rocks and quicksands, as well as the green pastures, of ethics and religion. This specialization, they argued, was necessary if any real advance was to be made beyond the expression of platitudes and sentiments. They allowed that in practical social problems there were in general other considerations besides the purely economic; but these they left to the jurist, the moralist, or the politician. For a time, however, especially under German influences, attempts were made to break down these boundaries, and the economist was elevated to the position of universal philanthropist and general provider of panaceas. Mill himself was partly to blame for the excursions which he made into the applications of social philosophy to practice. It is to these excursions we are indebted for the fantastical notion of the unearned increment, and the curious idea that it is the duty of people to leave the bulk of their money to the State, or rather the duty of the State to take it. Fortunately, however, for the progress of economics, this ideal of breadth without depth has not become dominant, and any force it had is already spent. The advances made in other social or less vaguely human sciences have been so great that the economist is obliged to exclude them from his domain.

Still to some extent the view prevails, especially in Germany, that it is the business of the economist to discover the general conditions of social well-being, and to show how they may be realized. If such an attempt were seriously made it could only end in the projection of the personality of the writer into an ideal, and one ideal would succeed

another like a set of dissolving views. Suppose, for example, that I personally were to attempt to set up an ideal and, not having imagination enough to create a new one, I were to turn to ancient Greece. There is something very fascinating about the life of the typical Athenian in the best days of Athens. Physical beauty and vigor were considered as essential as keenness of intellect, appreciation of the fine arts, and skill in oratory; and this intense self-realization was tempered by ardent patriotism and a strong sense of the duties of citizenship. The principal blot, from the modern point of view, was the institution of slavery and the relegation of most industrial functions to slaves. I might as an economist, if this breadth of view were justified, take it on myself to show how modern life might be Hellenized, and by leaving out slavery and introducing a little Christian charity a very pleasing ideal might be made, and then I might go on to show what steps Government should take to realize this ideal.

In the meantime, however, my friend Dr. Cunningham might take as his type one of the equally fascinating religious communities of the Middle Ages, and by leaving out some of the superstitions and inserting a few Hegelian contradictions, he might construct an equally attractive ideal and proceed to direct the statesmen how it might be carried into practice. But when all the other economists had worked out similar projects—Professor Sidgwick, for example, on the lines of Bentham, and Professor Edgeworth with his love of measurements on the lines of Pythagoras—the difficulty would arise, Who was to be the ultimate arbiter? And to this question no one would accept the answer of the rest.

Perhaps it may seem that my illustration goes beyond the argument; let me, then, state the position in general terms. According to the traditional English view it is not the business of the economist to decide all the disputes that may arise even regarding fundamental questions in ethics, religion, fine arts, education, public law, administration—to decide, in a word, the first duty of man and the last duty of governments. His sphere is much more limited, and the limits have been indicated with tolerable precision by the classical English economists. Even in England, however, there has been a tendency in recent years to remove the old landmarks, and I do not mean simply on the part of socialists, but by those who in the main profess to accept the English traditions.

Just as the German idealists think it is the business of the economist



to discover the way to the perfectibility of the species, the English realists impose upon him the duty of finding the road to the greatest happiness of the greatest number. In technical language political economy is the economy of utility. No doubt, at first sight, this aim seems to be both definite and practical. From the old inquiry, "How nations are made wealthy," to the new inquiry, "How nations are made happy," it seems a natural and easy transition. For the essence of wealth is to possess utility, to satisfy desires, to create happiness. It is obvious also that the happiness of a people depends largely on its economic conditions in the narrowest sense of the term ; it depends, that is to say, on the amount and distribution of its material wealth. Accordingly it seems plausible to maintain that the economist ought to discover by his calculus of utility those principles of production and distribution that will lead to most happiness.

Plausible and natural, however, as this transition from wealth to happiness may seem, it may readily lead to the abandonment of the central position of the classical economists. The steps are worth tracing. The first deduction made from the general principle of utility is that it obeys a law of diminishing return. Every additional portion consumed or acquired of any commodity gives a decreasing satisfaction, and passing through the point of satiety we reach the negative utility of being a nuisance. Illustrated by the usual curve this law assumes the character of a mathematical axiom.

The next step is to show that the rich man derives very little utility (or happiness) from his superfluity, whilst if his abundance were divided amongst the poor a great amount of happiness would be created. It seems to follow at once that, assuming an average capacity for happiness, the more equal the distribution of wealth the greater will be the happiness of the people. Never did any theory of equality assume such a simple and scientific form ; it is like the advent of primitive Christianity in the guise of a new philosophy.

The practical question remains, How is this ideal to be carried out ? Obviously it is too much to expect that the principle of natural liberty and the policy of *laissez faire* may be left to work out this latter-day salvation. Competition may be well enough for the strong, but is the destruction of the poor and weak. Accordingly it seems easy to prove, or at least to presume, that great powers must be given to the State. It only remains to bring in the principle which Mill flattered himself was his chief contribution to economic theory, viz., that the

distribution of wealth depends entirely on the opinions of mankind, that these opinions are indefinitely pliable, and that, therefore, no schemes of distribution can be called impracticable, and we arrive at the conclusion of the whole matter. And practically that conclusion is nothing less than State Socialism.

It needs no demonstration, however, that nothing could be more opposed to the traditional English political economy. What, then, becomes of my contention that it remains unshaken, and that there are signs of a strong reaction in its favor? The truth is that this conclusion has again brought into prominence other portions of the old doctrine that had been allowed to fall into the background. We are confronted with the limited power of the State and the infinite variety of individual enterprise. To the older economists the difference seemed so great that they considered the presumption against State interference to be established. The rule, it is true, was never absolute and unqualified. Adam Smith himself indicated some of the most important of these exceptions, and the list has been extended by his successors. But these exceptions were all based upon reasoned principles, such as the incapacity of the persons concerned, *e. g.*, children to make fair contracts, the lack of individual interest in public works, *e. g.*, the maintenance of roads, and the importance of the highest security, as in the regulation of the issues of bank notes. And in spite of all these exceptions—strengthened and purified by these exceptions—the presumption remained undisturbed. Recently, however, some writers, under the influence of the ideal of maximum happiness and impressed by the power of the State, have sought to extend its interference far beyond these admitted principles. But I venture to say, so far as this movement had any theoretical support, the reaction has already begun.

The fundamental importance of freedom of contract has become more apparent than ever through the application of the comparative and historical methods to jurisprudence; the proposition that the progress of society has been from status to contract has almost acquired the force of an axiom. The analysis, too, of modern industrial systems in which division of labor has become more and more intricate and interdependent, has shown the hopelessness of the attempt to transfer the management and control to the State. Changes in the methods of production, in the diffusion of knowledge, and in the transport of material commodities, have been so rapid and so great that no

executive government could have overtaken them. In the most advanced communities, even that legislation which is necessary for the new conditions lags behind ; even those elementary forms which simply aim at giving an interpretation to contracts in doubtful cases, or which are necessary for the adjustment of responsibility (as in bankruptcy and partnership), are behind the times. The growth of joint-stock enterprise has outstripped the development of the law of companies, and there is a crop of new frauds without corresponding penalties.

Turning to the executive and administrative functions of government, the analysis of existing conditions shows that we have not yet overtaken those exceptions admitted by the strongest supporters of *laissez faire*. The British government has, it is true, wasted its energies in devising temporary expedients of various kinds, but it has not yet accomplished the programme of Adam Smith. Not only are there privileges and restrictions that ought to have been abolished long ago, but on the positive side the programme is not complete. We have just begun universal education on the lines laid down by Adam Smith, but his scheme for imperial federation is not yet within the range of practical politics. We have effected great financial reforms, but we still fall far short of the full development of his principles. Even in matters of currency and banking—in relation to which the function of the State has always been recognized—we are lamentably in need of reform.

But if the State cannot overtake those duties which are so necessary and persistent that they were forced on the attention of the strongest supporters of *laissez faire*, how can we possibly justify the assumption of new functions which rest upon no better principle than the vague idea that the State ought to do something ?

This leads me to observe that not only theoretically but practically signs of a reaction in favor of the old position are rapidly increasing. The experiments already made at playing the *rôle* of omnipotence and omniscience, against which governments were so emphatically warned by Adam Smith, have begun to bring forth fruit after their kind—thorns that were carefully nursed by the legislature, instead of producing grapes, have produced more thorns and worse thorns.

A principle of the widest application in ethics and politics as well as in economics, which may be described as the principle of formal justice, has begun to operate in a remarkable manner. A government

which lends its power and assistance to one set of people must be prepared to act in a similar manner in all similar cases. If once this principle is abandoned, governmental action becomes either a matter of chance or depends upon clamor and jobbery. It is wonderful how quickly the human mind discovers analogies in grievances, and how soon one cry leads to another. Microbes are not more rapid and relentless in their multiplication. A plain man may have his doubts about the similarity of triangles and consent to arbitration on the question, but he has no doubt that for the purpose of governmental grants and aids his needs are similar to his neighbor's. And the plain man is right. How can we justify the use of State credit for the purchase of lands in Ireland and fishing boats in Scotland if we are not prepared to give similar aid to the poor of England who are similarly situated? If we grant judicial rents in the country why not in the towns, and if we fix by law one set of prices why not all prices?

We must not be content with looking at the immediate effects of legislation; we must consider also the secondary and more remote consequences. If a legislator thinks that there are none of importance, let him read a chapter of Adam Smith—in the original and not in the stale pemmican of popular dogmatism. And if he still thinks that every law must be considered in isolation on its own merits, that it is a temporary remedy for a passing emergency, then let him resign his seat in Parliament; he has mistaken his vocation; in the name of common sense and the happiness of the greatest number let him cease to be a legislator and become a policeman.

There is an old fable about the gradual entrance, little by little, of the camel into the tent of the Arab. The British Government—I speak irrespectively of parties, for with the frankness of my old masters in political economy I make bold to say both are equally to blame—the British Government is beginning to find that the camel is getting too far into the tent. The admission of a single ear is nothing to the admission of the hump, and the knees, and the rest of the beast. Now the ear may be interpreted to mean the grant of a few thousand pounds to Scottish fishers, the hump is universal old-age pensions at a cost of some fifteen or twenty millions a year, and for the knees you may take the nationalization of land at a cost of some two thousand millions, and for the whole beast you have the complete Socialist programme. The conclusion that when the beast was in, the Arab was out, needs no interpretation.

Let us leave fables for something the exact opposite, namely taxes. It was a favorite doctrine of the old economists that taxes are a burden and the visits of the tax-gatherer are odious. This doctrine also is beginning to reassert itself. The State can do nothing without money, and it generally does things in the most expensive manner. Fortunately in this country we have not yet reached the limits of tolerable taxation, but at the present rate of growth of imperial and local expenditure we are rapidly approaching those limits. Now, if there is one position that has been firmly established in theory and confirmed by the abundant experience of many nations, it is that excessive taxation is ruinous to a country. We have to consider not only the net proceeds but the indirect cost in all its forms, not only the mere cost of collection but the effects on industry and on the energies of the people.

It may, of course, be replied that those who demand a large increase of expenditure for public purposes do not propose to tax the poor, but only to take the superfluities of the rich—to take, as is sometimes said, twenty shillings in the pound from that part of every income which extends above 400*l.* a year. The certain effect of this kind of taxation would be that in a very short time nobody would have more than 400*l.* a year, and the sources of taxation would dry up just as people had become used to and dependent on governmental assistance.

The general argument may be summarized in the favorite phraseology of the day. The utility of every increment of governmental work rapidly diminishes, and the disutility of every increment of taxation rapidly increases. Both propositions, I may add, were abundantly proved before the language I have just employed was invented, and the old language, if less scientific, conveyed a more emphatic condemnation.

I will conclude by calling your attention to one more position of the classical economists, and one that is the foundation of their whole system so far as they deal with the principles of governmental action. They maintain that even if the State could do something for individuals as cheaply and effectively as they could do it for themselves, it is in general better to trust to individual effort. The decisive consideration is the effect on the character and energies of the people. Self-reliance, independence, liberty—these were the old watchwords—not State reliance, dependence, and obedience. In the matter of pauperism, for example, they teach us to distinguish between the immediate

effects of relief which may be beneficial, and the effects of reliance on that relief which may be disastrous. They are bold enough to maintain that the condition of life of the dependent pauper should not be made by aids and allowances better than that of the independent laborer. They insist on the great historical distinction between the sturdy rogues and vagabonds—who can work and will not—and the impotent poor, the poor in very deed, who cannot support themselves. They look upon the payment of poor rates as they look upon other forms of taxation—namely, as the lesser of two evils; they do not try to persuade themselves and other people that it is a duty which is essentially pleasant. And I confess that I never yet met a man who had the audacity to assert that he enjoyed paying poor rates. But I have known many men who have given of their substance to a far greater extent with a cheerful spirit. It is the compulsion that sticks in the throat, and there is no more instructive chapter in economic history than that which describes the slow, painful processes by which Englishmen gradually adopted compulsory assessment for the relief of the poor. I shall be told that these old economic doctrines are cold and hard and opposed to the principles of Christian charity. The retort is easy: If Christian charity realized a tithe of its ideal there would be no need for relief on the part of the State. If I, too, may quote Scripture for my purpose I would say: Go to the ant, thou sluggard! It does not take ten ants to relieve another ant, and in this land of ours there are more than ten professed Christians to every pauper.

It is time, however, to bring this discourse to an end and not to begin a sermon; which, moreover, according to my masters, the old economists, is beyond our domain. Yet I shall be bold enough to end with these words of advice: To the student I would say: Political economy has a vast literature, and you will not find all the good concentrated in the last marginal increment; you must master the old before you can appreciate the new; a portion of truth just rediscovered for the hundredth time by some amateur is not of such value as a body of doctrines that have been developed for more than a century by economists of repute. And to the legislator I would say: Vaster than the literature of political economy is the economic experience of nations; the lessons to be learned from the multitudinous experiments of the past can never become antiquated, for they have revealed certain broad features of human character that you can no more disregard

than the vital functions of the human body. Just as Harvey did not invent but discovered the circulation of the blood, so Adam Smith did not invent but discovered the system of natural liberty. And nothing has been better established than the position that legislation which neglects to take account of the liberties of individuals is foredoomed to failure. If they cannot break through the law they will get behind the law. The first duty of the legislator is to take account of the natural forces with which he must contend, and the classical economists have made a survey and estimate of these forces which, based as it is on the facts of human nature and the experience of nations, it would be wilfull folly to overlook.